

Formulary Methods in International Taxation



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“Where Next for Global Taxing Rights?”

Tax Justice Network Virtual Conference, 11 December 2019

(1) Formula Apportionment

- 3 datasets to assess impact of global FA
 - On global revenue
 - On revenue distribution

- Put in wider context
 - Subnational experience
 - Dynamic implications



IMF Working Paper

An Assessment of Global Formula Apportionment

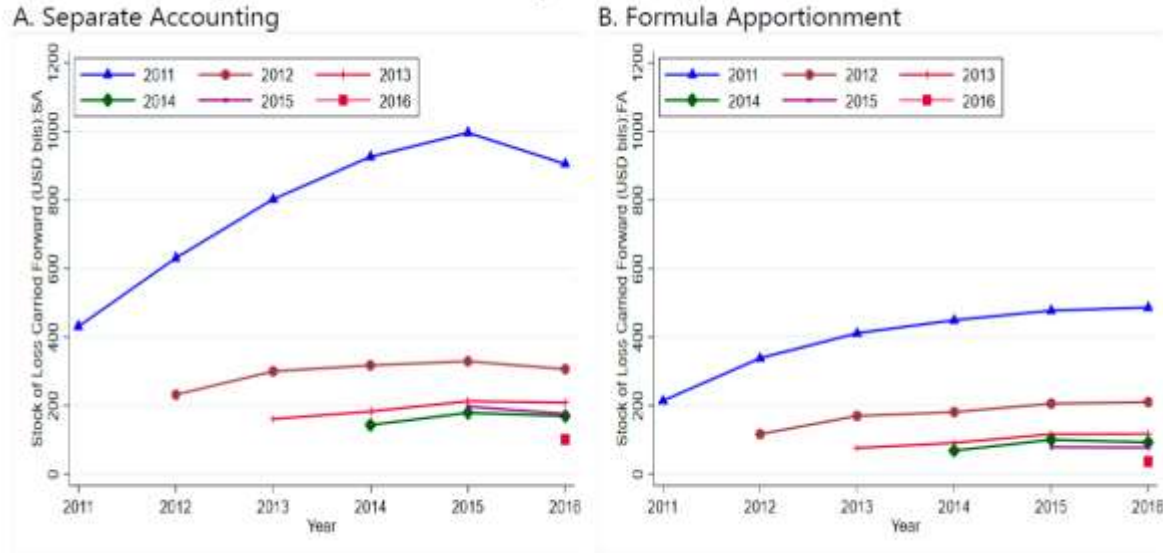
by Ruud De Mooij, Li Liu, and Dinar Prihardini

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Global Revenue Effects

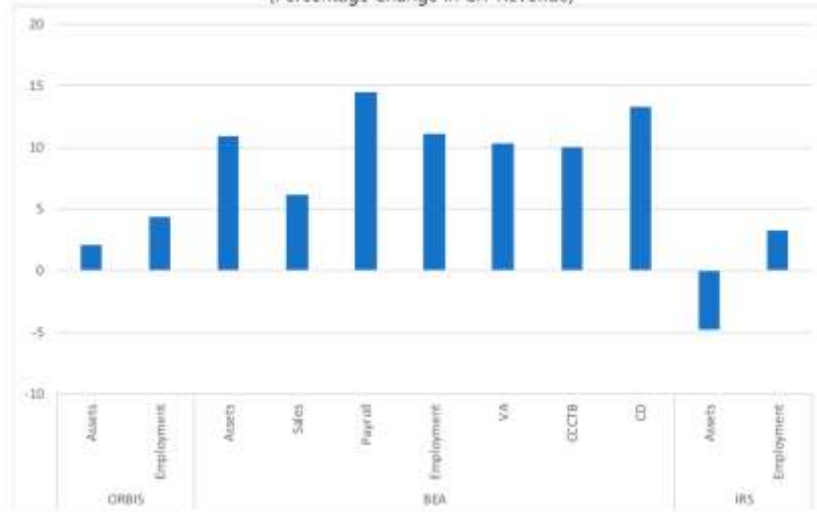
Loss consolidation will reduce tax base by 10 percent

Figure 2. Stock of Loss Carryforward, by Year of Initial Losses



Source: IMF staff estimates.

Figure 3. Revenue Effects of FA from Reallocating the Tax Base
(Percentage Change in CIT Revenue)



Relocation from low to high-tax countries will expand revenue

Winners/losers from FA

Effect on developing countries mixed, depending on formula

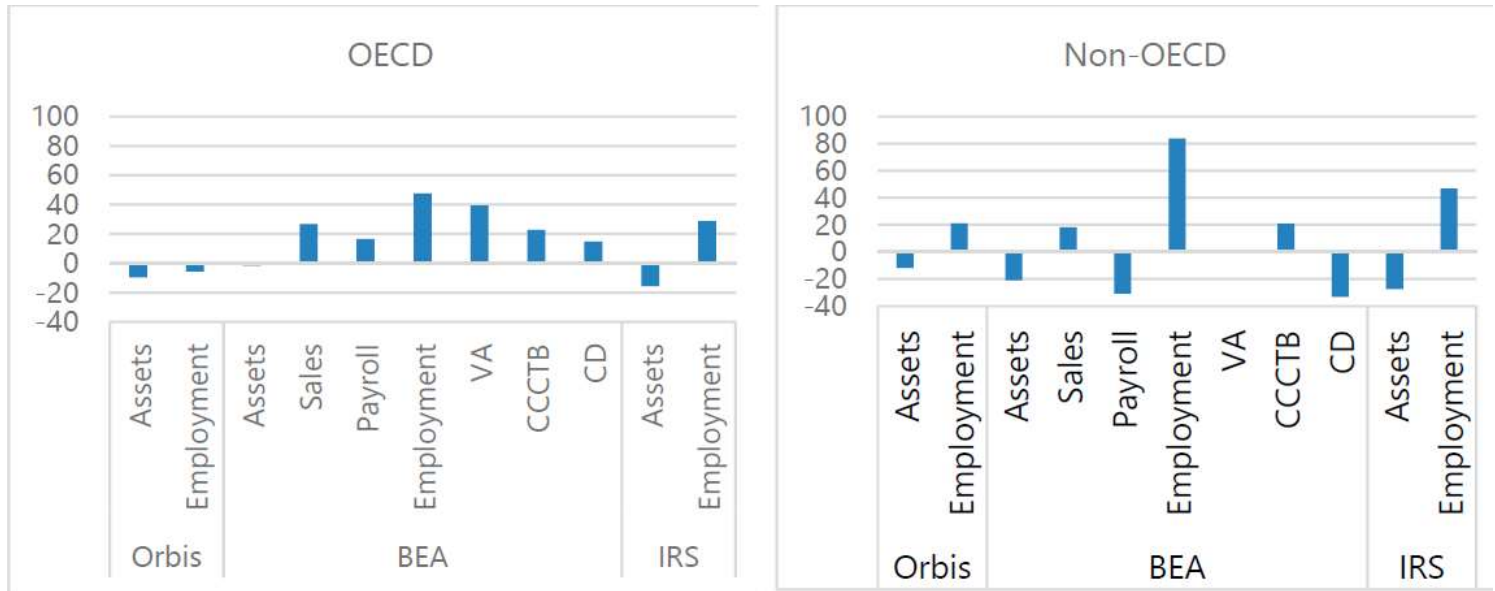
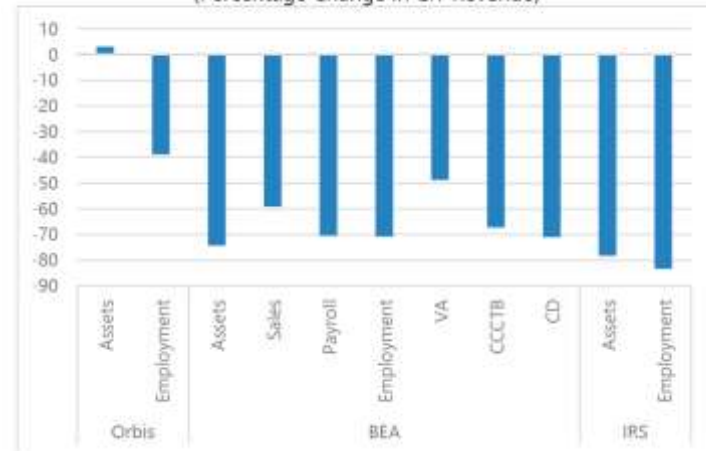


Figure 5. Summary of Revenue Effects for Investment Hubs
(Percentage Change in CIT Revenue)

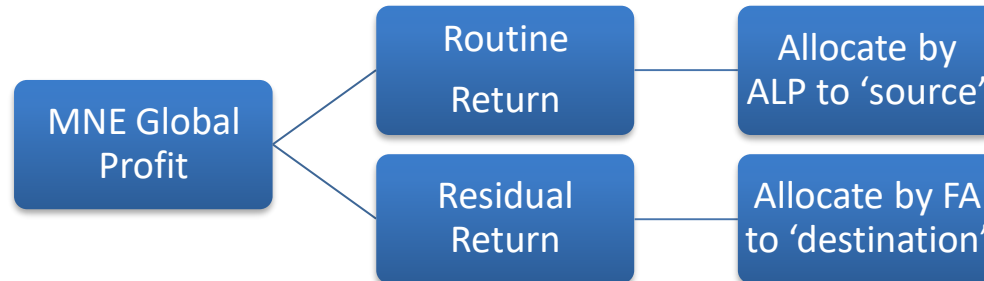


Effect on 'investment hubs' strongly negative in most analysis

There's more ...

- Subnational FA schemes more granular
 - (Unitary) base often more narrow – CAN, US
 - Specific formula or weight for specific sectors – e.g. banks
 - Room to include 'residence' factor – e.g. China
- Dynamic effects important
 - E.g. investment effects with assets in formula
 - How manipulable is sales by destination?
 - Tax competition might intensify

(2) Residual Profit Allocation

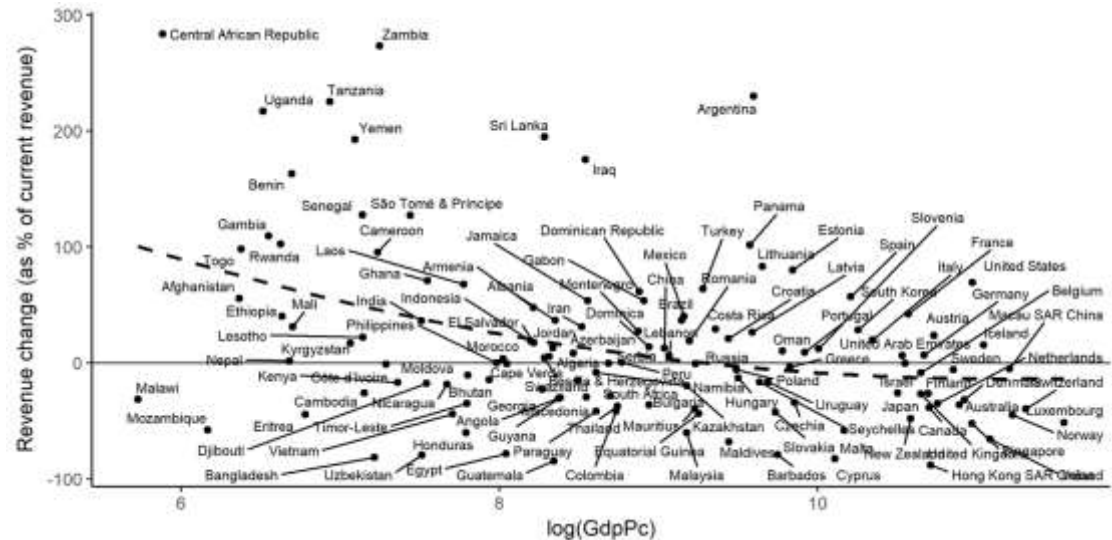


Effect more positive if:

- CIT rate is higher
- Income is lower
- Not 'investment hub'

Insignificant effect for:

- Resource rich (-)
- Current account (-)



RPA still different from Unified Approach

- More general principle (not by size; consumer-facing; fraction)
- True/full consolidation; and true 'residual' (symmetric)
 - To simplify – not relocate per se
 - To replace, not add to ALP



IMF Working Paper

Exploring Residual Profit Allocation

by Sebastian Beer, Ruud de Mooij, Shafik Hebous, Michael Keen, and Li Liu

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